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No. 92-1507

In the Supreme Court of the United States

OCTOBER TERM, 1992

ALBERT L. DE GRAFFENRIED, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

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QUESTION PRESENTED

Whether the trial court erred in assessing damages for the unauthorized use of a patented invention based on the patentee's evaluation of a reasonable royalty for use of the patent.

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OPINIONS BELOW

The decision of the court of appeals (Pet. App. 1a-2a) is unreported. The opinions of the Claims Court (Pet. App. 6a-77a, 78a-106a) are reported at 20 Cl. Ct. 458 and 25 Cl. Ct. 209.*

* Although the name of the former Claims Court recently changed to the Court of Federal Claims, see Court of Federal Claims Technical and Procedural Improvements Act of 1992, Pub. L. No. 102-572, Tit. IX, § 902, 106 Stat. 4516 (to be codified in scattered sections of Title 28), we refer to that court for convenience as the Claims Court, the name it bore at the time of the decisions in this case.

JURISDICTION

The judgment of the court of appeals (Pet. App. 3a-4a) was entered on December 17, 1992. The petition for a writ of certiorari was filed on March 16, 1993. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Petitioner owns United States Patent No. 3,217,568, which describes a device for controlling the straightness of long bored tubes such as gun barrels. Petitioner brought this action pursuant to 28 U.S.C. 1498, alleging that the United States had infringed that patent. Pet. App. 7a-10a.

On the merits, the Claims Court concluded that the United States had infringed the patent by building and using bore guidance devices at an Army facility in Watervliet, New York. Pet. App. 6a-77a. In a separate opinion issued in January 1992, the court determined the amount of compensation the United States owes petitioner. *Id.* at 78a-106a. The court explained that the United States owes compensation for "the value of the license that, in effect, was taken by the government," as well as "compensation for the government's delay in paying for that license." *Id.* at 90a. Because the parties had agreed as to the method for compensating petitioner for the delay, the "central dispute involve[d] the value to be placed on the patent license." *Ibid.*

The court explained that its precedents offered three methods of valuing the hypothetical license: determination of a reasonable royalty, awarding a percentage of governmental cost savings, or awarding

lost profits. Pet. App. 91a. The court stated that the lost profits method was "not a viable alternative here because [petitioner] * * * did not directly lose any profit as a result of [the government's] use of the patented invention." *Ibid.* As to the two remaining alternatives, the court noted that its precedents "classified calculation of a reasonable royalty as the 'preferred method,'" and accordingly turned to calculation of a reasonable royalty. *Ibid.*

In calculating a reasonable royalty, the court concluded that a reasonable royalty should be based on the cost and number of the devices that used the patent, rejecting petitioner's contention that the royalty should be based on the cost savings from using the invention, which would depend on the frequency with which the patented invention was used. Pet. App. 91a-101a. The court noted that the per-item royalty structure it selected conformed to practice in the machine tools industry (*id.* at 93a-94a), and that petitioner himself had offered to license the patent on a similar basis in negotiations with Westinghouse Corporation (*id.* at 94a-95a). The court also stated that even if it had been inclined to award a royalty based on cost savings, the evidence introduced by petitioner at trial was not sufficient to demonstrate the amount of cost savings to the government from using the patented invention. *Id.* at 102a-103a n.7. Finally, the court concluded that a reasonable royalty would have been an initial payment of $50,000, together with payments of 5% of the approximate sales price of each device manufactured using the patented invention; those terms were similar to the

terms on which petitioner offered to license the invention to Westinghouse. *Id.* at 103a-105a.

2. The Federal Circuit affirmed without opinion. Pet. App. 1a-2a.

ARGUMENT

The trial court's determination of the amount of a reasonable royalty in this case rested on its evaluation of conflicting evidence submitted by the parties at trial and is thus closely akin to a factual finding. See, *e.g.*, *Tektronix, Inc.* v. *United States*, 552 F.2d 343, 351 (Ct. Cl. 1977), cert. denied, 439 U.S. 1048 (1978). The decision of the court of appeals affirming such a determination does not present an issue suitable for review by this Court. See, *e.g.*, *Branti* v. *Finkel*, 445 U.S. 507, 512 n.6 (1980).

Petitioner's principal argument (Pet. 8-13) is that the Claims Court failed to give adequate weight to subsequent use of the infringing devices by the Army. Yet, petitioner concedes (Pet. 7-8) that the value of the property taken by eminent domain is to be determined as of the time of taking. Moreover, as the Claims Court noted, petitioner failed to prove at trial the extent to which the cost savings on which he relies were caused by the use of the patented invention, rather than other technological improvements. Pet. App. 102a-103a n.7.

The bottom line is that the most probative evidence regarding the value of the patent as of the time of the taking was petitioner's own valuation shortly before the patent was first used by the government. Cf. *Decca Limited* v. *United States*, 640 F.2d 1156, 1167, 1179-1180 (Ct. Cl. 1980) (court should use reasonable royalty method "virtually without exception" where

patentee has licensed invention before the government uses the invention), cert. denied, 454 U.S. 819 (1981); *Pitcairn* v. *United States*, 547 F.2d 1106, 1118-1119 (Ct. Cl. 1976) (appropriate to limit owner's compensation for condemned property to amount of owner's prior offers to sell), cert. denied, 434 U.S. 1051 (1978). Indeed, far from undercompensating the inventor, reliance on the inventor's valuation of his own invention would, if anything, be likely to overcompensate the inventor. Given the Federal Circuit's view that per-use royalties are inconsistent with practice in manufacturing industries, see *Stickle* v. *Heublein, Inc.*, 716 F.2d 1550, 1561-1563 (1983)—a view buttressed by the proof in this trial, see Pet. App. 93a-94a—the decision of the Claims Court to rely on petitioner's valuation in this case was entirely appropriate.

Finally, petitioner errs in relying (Pet. 11-12) on *United States* v. *Berdan Fire-Arms Manufacturing Company*, 156 U.S. 552, 570-571 (1895). That case was not an action for unauthorized use of a patented invention; rather, *Berdan Fire-Arms* was a suit for breach of an implied contract. *Id.* at 569. In any event, the passage quoted by petitioner (Pet. 11-12) had nothing to do with the determination of damages. Rather, it explains the Court's rejection of the patentee's reliance on an unaccepted offer to license an earlier patent to demonstrate the date a cause of action arose under the implied contract the patentee relied on in the case before the Court. See 156 U.S. at 570-572. That analysis is not relevant to the question presented by petitioner.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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